



JOINT ECONOMIC COMMITTEE

SENATOR CHARLES E. SCHUMER (D-NY) – CHAIRMAN



FACT SHEET

FEBRUARY 2007

INVESTING IN A COLLEGE EDUCATION

Parents today know that their children will need a college education to succeed in our global economy, but they are having a harder time saving for college as tuition skyrockets. Despite the importance of a college education to an individual's future success and the competitiveness of the entire economy, steep tuition increases have made college an intimidating financial hurdle for middle class families. America's parents need support to be able to provide their children with the opportunities and access to education that they had. Only with this support will today's young people achieve prosperity in a changing global economy.

College is Key for Opportunity in 21st Century Economy. Over the course of their lifetime, college graduates will earn \$1 million more than high school graduates.¹ College graduates are more likely to have high-paying jobs that offer employer-sponsored health care and retirement benefits, which mitigates economic risk in the workforce.

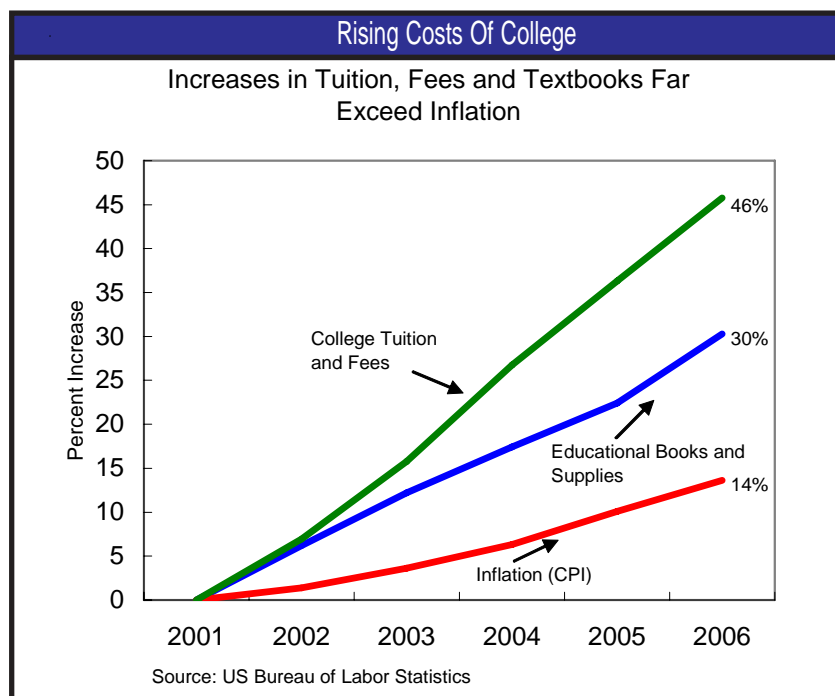
The Cost of College Keeps Going Up. College tuition has nearly doubled in the past ten years at 2-year, 4-year, public and private institutions. In 1986-87 average tuition, fees, room and board at a 4-year public institutions was \$7,528 (adjusted to

2006 dollars) while in 2006-2007 those costs were \$12,796. For private 4-year institutions the increase was from \$18,312 in 1986-87 (adjusted to 2006 dollars) to \$30,367 in 2006-07.²

Students and their Families Are Racking Up Student Loan Debt. As tuition costs continue to swell, students are taking on more and more debt to pay for their degrees. In 2004, two-thirds of all four-year college graduates left school with student debt. The average student borrower now leaves college saddled with nearly \$17,000 in debt.³

Even Families that Do Save For College, Can't Save Enough. The median amount saved for college, for those families that do save, is \$10,000. The median amount that they will have saved by the time their oldest child will go to college is \$32,000, only enough to pay for one year at a private university or two at a public university.⁴

On Top of Tuition, Textbooks Create a Burden On College Students and Their Families. Students spend an average of \$900 a year on textbooks. Textbook prices have increased at four times the rate of inflation since 1994 and continue to rise.⁵



Policy Proposal

Consolidate College Tuition Tax Provisions into One Super-Sized College Credit

Existing tax credits and deductions in the tax code for higher education are confusing. Under current tax law, families can deduct up to \$4,000 in tuition and other qualified expenses in 2007 for any family member claimed as a dependent. However, the \$4,000 figure is an annual maximum, regardless of how many students may live in the family. And the President's 2008 budget does not extend the college deduction beyond the 2007 tax year.

Also available to parents are two college-related tax credits — the Hope Scholarship and the Lifetime Learning credit—that have rather confusing rules and restrictive eligibility requirements. For example, the Hope Scholarship credit amounts to 100 percent of the first \$1,100 of a college student's annual tuition and fees plus 50 percent of the next \$1,100. Therefore, the maximum Hope credit is \$1,650 per qualifying student per year. However, the Hope credit can be claimed for only two tax years for any one student, after which it becomes unavailable. The Lifetime Learning is mainly intended to help defray college costs after the first two years, when the Hope credit is no longer allowed. The Lifetime credit equals 20% of tuition and fees up to \$10,000, for a maximum annual credit of \$2,000. Because taxpayers can only claim one of these tax breaks at a time, filers have to do their homework and compare the relative benefits and requirements, which is no easy task.

The Middle Class Opportunity Act of 2007 (S. 614) would simplify the tax code and expand access to college for millions of families by consolidating the current Hope and Lifetime Learning tax credits and the college tuition tax deduction (which expires in 2007) into one easy-to-understand tax credit. The new credit would be applicable for expenses for tuition, fees, and textbooks, apply to both undergraduate and graduate education, and can be used for up to three students in the household. The Act would cap the credit at \$2,500 per student (approximately half the national average annual tuition rate for four-year public college) and start to phase out at income levels of \$70,000 (single) and \$140,000 (married). The credit would reach zero when family income exceeds \$90,000 (single) and \$180,000 (married) in order to target it toward the families that need the most help.

Endnotes

¹ U.S. Census Bureau, "The Big Payoff: Educational Attainment and Synthetic Estimates of Work-Life Earnings," Current Population Reports, P23-210, by Jennifer Cheeseman Day and Eric C. Newburger, available via a link at www.census.gov/population/www/socdemo/educ-attn.html.

²The College Board, "Trends in College Pricing, 2006," available at http://www.collegeboard.com/prod_downloads/press/cost06/trends_college_pricing_06.pdf

³State PIRG's Higher Education Project. "Student Debt," available at <http://www.uspirg.org/higher-education/student-debt>

⁴Investment Company Institute, "Profile Of Savings For College," Fall 2003, available at http://www.ici.org/pdf/rpt_03_college_saving.pdf

⁵State PIRG's Higher Education Project, available at <http://www.uspirg.org/higher-education>.